

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)
CORPORATION TO EXTEND ITS)
DEMAND-SIDE MANAGEMENT PROGRAM) CASE NO. 2011-00395
AS AMENDED AND COST RECOVERY)
MECHANISM AS AMENDED FOR FIVE (5))
YEARS)

ORDER

On September 29, 2011, Atmos Energy Corporation ("Atmos") submitted an application to extend its Demand-Side Management ("DSM") program for five years beyond the December 31, 2011 scheduled termination date, and to update the Annual DSM Cost Recovery Component ("DSMRC") mechanism, including the DSM Cost Recovery-Current ("DCRC"); the DSM Balance Adjustment ("DBA"); the DSM Lost Sales Adjustment ("DLSA"); and the DSM Incentive Adjustment ("DIA") set out in its tariffs. Atmos proposed to expand its existing DSM program by tiering space and water heating appliance rebate programs for increasing levels of energy efficiency; adding a commercial appliance rebate program to include space and water heating and cooking appliances; and augmenting its education program to include more age groups, encompassing all school grades as well as adult education. Atmos further requested that the Commission allow the current program to continue beyond December 31, 2011, if a final order had not been issued by that date. The Attorney General, by and through his Office of Rate Intervention ("AG"), was granted intervention in this proceeding on

October 18, 2011. On October 21, 2011, the Commission suspended Atmos's tariff proposal for five months, up to and including May 31, 2012, established a procedural schedule, and allowed the existing DSM programs and tariff riders to remain in effect pending a final order in this proceeding.

Commission Staff ("Staff") issued two requests for information in this proceeding and the AG issued one request for information. Two informal conferences ("ICs") were held, following which Atmos supplemented the record with additional clarification, corrections, and information requested in those conferences. As a result of the additional information filed, and at the request of Staff and the AG, Atmos agreed to and proposed additional refinements to its DSMRC calculations as well as its DSM tariffs.

BACKGROUND

The Commission approved Atmos's current program on September 2, 2009 in Case No. 2008-00499,¹ and approved further modification on June 21, 2010 in Case No. 2010-00305,² following Atmos's settlement of the AG's action in Franklin Circuit Court.

In Case No. 2008-00499, the Commission approved Atmos's request to increase weatherization funding for individual low-income households from \$1,500 to \$3,000, with no cap on the weatherization budget. As a result of the Commission's approval of the settlement between Atmos and the AG in Case No. 2010-00305, the

¹ Case No. 2008-00499, Application of Atmos Energy Corporation to Modify and Extend Its Demand-Side Management Program and Cost Recovery Mechanism (Ky. PSC Sep. 2, 2009).

² Case No. 2010-00305, Application of Atmos Energy Corporation to Modify its Demand-Side Management Program and Cost Recovery Mechanism (Ky. PSC June 21, 2011).

weatherization program budget was capped at \$350,000 per year, and the per-household funding level was reduced from \$3,000 to \$2,500. Day-to-day administration of the low-income program, which has been in effect for approximately 10 years, continues to be conducted by various community action agencies. In addition to the weatherization program, the Commission's Order in Case No. 2008-00499 approved an appliance rebate program for residential customers and an education program targeted at fourth and fifth graders. The Commission also approved the addition of Atmos's DLSA and DIA in that proceeding.

PROPOSED DSM PROGRAM CHANGES AND ADDITIONS

Low-Income Weatherization Program

Atmos proposed to increase the amount per household for low-income weatherization from \$2,500 to \$3,000, with continued program administration by community action agencies. Atmos estimates that its Low-Income Weatherization Program will have 125 participants on an annual basis and, therefore, proposed raising the program cap from \$350,000 to \$375,000. Atmos has averaged 119 homes weatherized per year since its program inception, with a high of 156 homes in 2001 and a low of 73 homes in 2008. Atmos believes it will see an increase in its weatherization program participation due to the expected expiration of ARRA funds which had previously supplied weatherization funds to low-income customers.

As in Case No. 2008-00499, Atmos supported its requested increase in its weatherization budget per household by stating that the cost of weatherization has continued to increase since the Commission's last renewal of its program. In response

to requests for information, Atmos indicated that weatherization cost for the five years ending in 2010 were as follows:

Year	Total Weatherization Funds	Total Households	Per Household Average
2006	\$197,863.33	136	\$1,454.88
2007	\$140,647.75	95	\$1,480.50
2008	\$99,176.69	73	\$1,358.58
2009	\$165,210.83	105	\$1,573.44
2010	\$296,599.23	136	\$2,180.88

This information was provided in a January 11, 2012 data response, and reported that, for January through October 2011, which was the most current information at the time, total funds spent were \$223,843.06, with 116 households participating and an average spending level per household \$1,929.68.

Appliance Rebate Program

Atmos proposed to continue offering a space and water heating rebate program to residential customers and to begin offering identical rebates to commercial customers. Atmos proposed to tier the rebates so that higher rebates would be offered for the purchase of appliances with relatively higher efficiency. Atmos's existing appliance rebates are: \$200 rebates available to a new or existing residential customer purchasing a new forced air gas furnace or boiler with 90 percent or greater efficiency, and 30,000 or greater BTU input; \$200 rebates for a new high efficiency .62 energy factor, 40 gallon or greater tank model water heater; and \$300 rebates for a new 99 percent efficient tankless model water heater. Atmos's proposed space and water heating appliance rebates for both residential and commercial customers are:

Space heating:

- \$250 rebate available to new or existing customer purchasing a new forced air furnace with 90 to 93 percent efficiency.

- \$325 rebate for a forced air furnace with 94 to 95 percent efficiency.
- \$400 rebate for a forced air furnace with 96 percent or greater efficiency.
- \$250 rebate for a boiler with greater than 85 percent efficiency.
- \$25 rebate for a Programmable Thermostat.

Water Heating:

- \$200 rebate for a new high efficiency .62 to .66 energy factor, 40 gallon or greater tank model water heater.

- \$300 rebate for a new high efficiency .67 or greater energy factor, 40 gallon or greater tank model water heater.

- \$400 rebate for a new .82 or greater energy factor tankless model water heater.

Atmos proposed that its third party vendor, Energy Federation, Inc. ("EFI") will continue to manage rebate disbursements, with no increase in cost per rebate.

In addition to the space and water heating appliance rebate program, Atmos is proposing to add an additional rebate for commercial cooking appliances. Atmos is proposing to offer \$500 rebates to existing or new commercial customers that change their current fryer, griddle, oven, or steamer to an EnergyStar model. Atmos states in its application that buildings with restaurants and other food service operations consume roughly 2.5 times the energy per square foot as other commercial buildings, and that energy cost savings of 10 to 30 percent are achievable through the use of energy efficient cooking appliances, while making contributions to a cleaner environment.

Atmos estimates that 1,130 commercial customers will participate in its rebate programs, with a projected associated decrease in sales due to increased energy efficiency of 143,605 Ccf (hundred cubic feet), with a 127 Ccf average saved per customer. This compares to projected savings of 193,047 Ccf due to residential rebate programs for an estimated 2,185 customers, with an average of 88 Ccf saved per customer.

Atmos was questioned in a request for information about its proposal to offer a \$500 commercial cooking appliance rebate regardless of the relative level of energy savings among the appliances. Atmos responded with the rebates reported in the Consortium for Energy Efficiency's summary, and concluded that a \$500 rebate appeared to be the best practice for this type of program.³ In a later response, Atmos stated that, since this was a first foray into commercial equipment rebates, it felt a standard rebate would be simpler and less confusing to customers.⁴ It also indicated a willingness to consider tiering rebates for levels of appliance efficiency as it had proposed in this proceeding for space and water heating rebates.

Education Program

Atmos's proposal to expand its targeted elementary school education program to include all grade levels as well as requested adult literacy is intended to expand awareness leading to changed usage patterns. In response to an AG request for information, Atmos stated that, although it does not have verifiable data to demonstrate

³ Atmos's Response to Commission Staff's First Request for Information, Item 9.

⁴ Atmos's Response to Commission Staff's Second Request for Information, Item 6.

that its education program has been effective, it has received high praise from teachers after its education program has been presented.⁵ In response to a Staff request for information, Atmos elaborated that its decision to propose expanding the education program was based on feedback from schools and local help agencies.⁶ Atmos is not requesting additional funding for the expanded program beyond the \$20,000 budget approved in Case No. 2008-00499.

DSM TARIFF AND COST RECOVERY PROPOSALS

While Atmos initially proposed no tariff changes except to add Commercial G-1 customers for eligibility and cost recovery, it provided several tariff and cost recovery calculation changes during the course of this proceeding. Those modifications were:

- DCRC: Removing Atmos employee costs from the tariff language and from the calculation.
- DIA: Changing the definition to provide for program benefits to be calculated using:
 - Each component's estimated useful life as defined in the Database for Energy Efficient Resources, EnergyStar, or NEEP (Northeast Energy Efficiency Partnerships), as opposed to 10 years;
 - Wholesale as opposed to retail gas cost, based on Atmos's own GCA rate escalated by projected future increases in wholesale gas cost as reflected in the NYMEX at Henry Hub; and

⁵ Atmos's Response to AG's Request for Information, Item 5.

⁶ Atmos's Response to Commission Staff's First Request for Information, Item 7.

- The weighted average cost of capital from Atmos's most recent rate case, in place of the discount rate used for financial reporting purposes based on rate of high-quality fixed income investment.
- DSM Cost Recovery Component rates as set out in its March 5, 2012 revision, which contains all corrections made during the course of this proceeding.

On February 17, 2012, the AG filed comments pursuant to the procedural schedule. The AG recommended that the Commission approve Atmos's Application subject to the following summary comments:

1. The Commission should order that Atmos separately account for employee-related DSM cost.

2. The Commission should approve the proposed expansion of the education component to all ages, if it approves its continuation at all, because the proposed expansion is preferable to such a limited elementary target audience of fourth and fifth graders; and should include in the Order a specific approval of the cost of the education component being maintained at its existing level as proposed by Atmos.

3. Any individual component of the DSM program that does not prove to be cost-effective should not be approved, although the DSM program as a whole should not be denied or rejected.

DISCUSSION

With respect to the proposed increase in funding for the Low-Income Weatherization Program, although Atmos historically has not come close to spending \$375,000, or \$3,000 per household, as stated previously, it has had as many as 156 customers participating in its weatherization program in a single year, and the previous

spending limit prior to the Order in Case No. 2008-00499 was \$1,500 per household. In Case No. 2008-00499, the Commission approved the per-household increase to \$3,000; and it was reduced, as stated previously, and the program cap added only because of Atmos's settlement of the Franklin Circuit Court case with the AG. With the expiration of ARRA funds which provided \$6,500 per household, it seems reasonable to expect a higher participation rate and associated cost. If the estimated participation level does not materialize, however, the cost recovery component for weatherization will obviously be in excess of what is required in the residential rate component. While Atmos's proposal to increase weatherization funding is reasonable and should be approved, the Commission believes that it should not wait five years to review the weatherization participation rates and associated cost recovery. For this and other reasons discussed in succeeding paragraphs, Atmos's DSM program should be extended for only three as opposed to five years as proposed.

Likewise, Atmos's proposed residential and new commercial appliance rebate programs should be approved as proposed. The additions of the programmable thermostat rebate and the tiering of space and water heating appliance rebates based on efficiency levels appear to be reasonable and likely to provide incentives for greater energy savings on the part of residential and commercial customers. Because of the possibility for greater energy savings caused by the tiering of rebates, Atmos should explore the possibility of offering tiered rebates for commercial cooking appliances and should provide a proposal for their inclusion, or explain why it is not proposing tiered rebates, in its next DSM program extension application.

As with the weatherization program, the Commission is concerned about Atmos's estimate of residential customer participation when compared to historical residential rebate program participation levels. When questioned about this, Atmos maintained its conviction that it could see higher participation levels due to the higher rebates offered for higher efficiency appliances. It also stated that any excess of estimates over actual experience will be corrected in the DBA. It is the very size of the current over-recovery to be returned through the DBA that calls Atmos's estimates into question, and is another reason that a three- instead of five-year extension should be approved. Unrealistic estimates of program participation could affect not only the DCRC, but also the DIA and the DLSA, with customers paying the cost until the BA can begin its 12-month cycle of returning over-recoveries to customers.

Atmos's proposal to expand its education program to all grade levels, including adult education, appears to be an improvement over its existing education program targeted to fourth and fifth graders. The Commission agrees with Atmos that energy savings can result from energy efficiency education, and with the AG that the cost of the education component should not exceed the \$20,000 budget included by Atmos in its proposal.

In order to provide information concerning the cost-effectiveness of its proposed DSM program, Atmos provided the California Standard tests—the Participant Test, the Program Administrator Test, the Ratepayer Impact Measure ("RIM"), and the Total Resource Cost Test. The results of its tests, as originally filed and as modified during the course of this proceeding due to calculation corrections and methodology revisions, are provided below:

California Tests as Originally Provided		California Tests as Modified	
Participant Test	2.40	Participant Test	2.02
Program Admin Test	2.65	Program Admin Test	2.15
Ratepayer Impact Measure	.67	Ratepayer Impact Measure	.63
Total Resource Cost Test	1.41	Total Resource Cost Test	1.13

It should be noted that the change in calculation of program benefits using wholesale as opposed to retail gas cost decreases the utility incentive as well as the cost/benefit results of the California tests. Even with the decreased avoided commodity component, the results of Atmos's California tests show a positive net benefit for all but the RIM. When asked in a Staff request for information to discuss the test results, Atmos stated that many, if not most, energy efficiency programs fail to pass the RIM test (this is consistent with the test results of other utilities regulated by the Commission).⁷ The AG questioned Atmos about performing tests on the program as a whole and not by individual component and the possibility that one component could fail but still be included because it is "bootstrapped" to more cost-effective programs. To this, Atmos replied, "[t]he company believes serving all customers, including those least able to afford energy efficiency improvements, and spreading the message concerning natural gas energy efficiency measures are the hallmarks of a comprehensive DSM program. Doing programs that only pass the cost effectiveness tests as determined in the California tests would most likely exclude any whole house/weatherization program or education efforts. The results would be no programs for our customers with the greatest need and a customer base not having the information they need to comfortably and effectively reduce their natural gas consumption." Atmos also stated in response to

⁷ Atmos's Response to Commission Staff's First Request for Information, Item 13.

the AG that it was not refusing to perform cost-effectiveness tests on the individual components of its program, but that the industry standard is to review results by aggregating programs.⁸

While the AG commented that no individual component should be approved that could not be proved cost-effective, he did not, during the course of this proceeding, specifically request that individual tests be performed, nor did he recommend rejecting or denying Atmos's DSM program as a whole. The Commission is not denying Atmos's DSM program or any component of it due to the lack of individual California Tests, or due to the failure of the RIM to show net benefits. We will, however, require Atmos to file individual program component California Tests, by customer class, as well as tests based on its program as a whole, in its next application for a DSM program extension. The tests should be based on historical data as well as prospective estimates. This information will be considered as part of the Commission's overall evaluation of Atmos's expanding DSM program, as a whole and in all its parts, and will not be the sole deciding factor in the Commission's deliberations. Besides the California tests, Atmos may provide any other cost-effectiveness tests or measures that it believes to be useful. The recommended three-year as opposed to five-year extension will provide for the provision of this cost-effectiveness information in a timelier manner.

Regarding the AG's comments that no individual component should be approved that could not be proved cost-effective, he has not identified which programs are the object of his concern and, as stated previously, he has not requested during this proceeding that individual tests be performed so that information could be available to

⁸ Atmos's Response to AG's Request for Information, Item 9g.

support his stance. It could be surmised that the AG is referring to the low-income weatherization and education programs, since programs of this kind have often proved to be at best negligibly cost effective. It is unclear from the AG's comments why he is expressing concern about the cost-effectiveness of the individual DSM program components while at the same time he is recommending that the program as a whole be approved. To the extent that the AG has concerns about the cost-effectiveness of this program, he should articulate his concerns and clarify his opinion as to the continuation of Atmos's DSM programs when it files its next application for approval to extend the programs.

Atmos's modified DSM tariff and cost recovery calculations as set out in Atmos's March 5, 2012 filing following the March 1, 2012 IC are reasonable and should be approved. Specifically, the addition of commercial customers to the Applicability section of the DSM tariff and to DSM cost recovery; the removal of employee costs from the DCRC, as proposed by Atmos and as specified in the AG's comments; the calculation of the DIA using individual components' useful lives, Atmos's GCA escalated by NYMEX futures prices, and Atmos's weighted average cost of capital from its last rate case; and the DSMRC rates for Residential and Commercial G-1 customers should all be approved.

SUMMARY

After reviewing the record in this proceeding and being otherwise sufficiently advised, the Commission finds that:

1. Atmos' request to continue and increase the funding for its Low-Income Weatherization Program; expand its Appliance Rebate Program to commercial

customers, tier space and water heating appliance rebates to energy efficiency, and add commercial cooking appliance rebates; and expand its Education Program to more age groups with no increase in its budget, as proposed by Atmos and as specified in the AG's comments, is reasonable and should be approved.

2. Atmos's modified DSM tariff as contained in its March 5, 2012 filing, including recovery of DSM program costs and language changes as revised during the course of this proceeding, is reasonable and should be approved.

3. Atmos's proposal to extend its DSM program for five years should be denied. Atmos's DSM program, as approved herein, should be effective May 1, 2012, for three years up to and including April 30, 2015, pursuant to Atmos's request in its filing of March 5, 2012, for a full authorization period for its program.

4. Atmos should file its next application for further extension of its program no later than October 31, 2014.

5. Atmos's next application for further extension of its program should include California tests plus any other cost-effectiveness tests desired by Atmos for each DSM component individually, by class, as well as for the program as a whole. The individual component and total program tests should be conducted using historical annual data for each year 2010 through 2013 and the first six months of 2014, as well as prospective individual and total program tests using estimates. The test results, as stated previously, will be considered as part of the Commission's overall evaluation of the program, as a whole and in all its parts, and will not be the sole deciding factor in the Commission's deliberations.

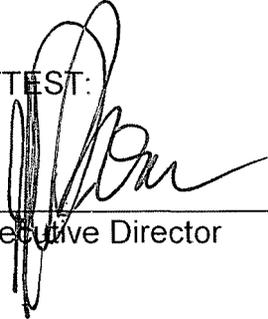
IT IS THEREFORE ORDERED that:

1. Atmos' DSM Program modifications are approved as set out herein, effective on and after May 1, 2012 through April 30, 2015.
2. Atmos's revised tariff as contained in its March 5, 2012 filing is approved effective May 1, 2012, through April 30, 2015.
3. Atmos shall include cost-effectiveness tests as set out in finding paragraph 5 above with its next application due no later than October 31, 2014 for further extension of its program.
4. Within 10 days of the date of this Order, Atmos shall file its revised tariff showing the date of issue and that it was issued by authority of this Order.

By the Commission.



ATTEST:



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